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## Pakistan

## Sugar

## Annual 2009

## 2009

**Approved by:**

Joseph M. Carroll  
Agricultural Counselor  
U.S. Embassy, Islamabad

**Prepared by:**

Mohammad Shafiq Ur Rehman  
Agricultural Specialist

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**Report Highlights:**

Pakistan's MY 2009/10 sugar production is forecast at 3.65 million metric tons (MMT), up about 3 percent from the current year estimate of 3.56 MMT. Consumption is forecast at 4.35 million metric tons and imports at 730,000 tons. Trial production of sugar beet has proven successful but industry is reluctant to encourage expanded production due to technical and administrative challenges. Pakistan's sugar industry produces more than half a million tons of ethanol per annum from cane molasses, over 50 percent of which is exported to Europe, Far East and Middle East countries.

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## Table of Contents

<b>Executive Summary .....</b>	<b>3</b>
<b>SUGARCANE .....</b>	<b>3</b>
<b>Production .....</b>	<b>3</b>
Table 1: Sugarcane Area and Production by Province.....	4
Production Policy .....	4
Table 2: Indicative Prices of Sugarcane by Province.....	4
<b>SUGAR.....</b>	<b>5</b>
<b>Production .....</b>	<b>5</b>
Table 3: Refined Sugar production, Supply and Demand .....	5
<b>Consumption.....</b>	<b>6</b>
Table 4: Monthly average Retail Prices of Sugar.....	6
<b>Trade.....</b>	<b>6</b>
<b>Stocks .....</b>	<b>7</b>
<b>ETHANOL .....</b>	<b>7</b>
<b>Production .....</b>	<b>7</b>
<b>Export .....</b>	<b>7</b>
Table 5: Year Wise Molasses Production and Ethanol Export:.....	7
<b>OTHER RELEVANT REPORTS .....</b>	<b>7</b>

## Executive Summary

Pakistan's MY 2009/10 (Oct/Sept) total centrifugal sugar production is forecast at 3.65 MMT, an increase of 3 percent over Post's 2008/09 estimate. Increased production is attributed to larger area planted in response to strong industry demand and higher cane prices. Despite efforts to achieve self-sufficiency, Pakistan remains a net importer of sugar with imports estimated at 700,000 tons in MY 2008/09 and forecast at 730,000 tons in MY 2009/10. Sugar consumption is on the rise due to increased demand mainly driven by population growth and enhanced industrial activity, and is forecast at 4.35 MMT.

The Ministry of Food, Agriculture and Livestock (MINFAL), in consultation with the Provincial Governments of Punjab and Sindh and the Pakistan Sugar Mills Association (PSMA), has undertaken measures to support increased sugarcane productivity and production by linking the cane price with sugar recovery. Supplementing cane production with sugar beet has proven successful but sugar mills are reluctant to accept the new crop due to technical and administrative challenges and because of the higher energy costs for processing.

## SUGARCANE

### Production

Sugarcane is an important industrial and cash crop in Pakistan. Pakistan is an important cane producing country and is ranked fifth in world cane acreage and 15th in sugar production. Sugarcane is grown on over a million hectares and provides the raw material for Pakistan's 84 sugar mills -- which comprise the country's second largest agro-industry after textiles. In addition to sugar, sugarcane produces numerous valuable byproducts like, alcohol used by pharmaceutical industry, ethanol used as a fuel, bagasse used for paper and fuel, chip board manufacturing and as a rich source of organic matter for crop production. Sugarcane production is cyclical as the interests of farmers and industry is often at odds. Industry procurement practices such as delaying the crushing season, buying cane at less than the support price, short weight, false deductions and delayed payments reduce returns to farmers. Sugar millers complain that farmers grow unapproved varieties with low sucrose content, thus resulting in lower sugar production and recovery rates.

MY 2008/09, sugarcane production is estimated at 51.5 MMT, a decrease of 19 percent over the previous year due to both a reduction in area harvested and yield. Milling policies and practices, coupled with attractive prices for alternative/competing crops (rice, cotton and sunflower) and insufficient irrigation supplies are major factors limiting crop expansion in the country.

MY 2009/10 sugarcane production is forecast at 53.6 MMT, an increase of 4 percent over the previous year due to an expected increase in area and yield. A shortage of cane supply during the current crushing season led to an increase in cane prices. This situation benefitted growers who received prices higher than the indicative prices announced by the Government. This development is expected to contribute to an increase in sugarcane area and productivity in the ensuing year. Moreover, last year's higher production of rice and sunflower led to lower prices received by farmers, thereby encouraging the switch back to sugarcane.

**Table 1: Sugarcane Area and Production by Province**

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 2007/08	MY 2008/09	MY 2009/10	MY 2007/08	MY 2008/09	My 2009/10
<b>Punjab</b>	827.00	675.00	689.00	40,372	32,000	33,500
<b>Sindh</b>	310.00	264.00	280.00	18,300	14,760	15,350
<b>NWFP</b>	105.00	105.00	110.00	4,800	4,700	4,700
<b>Baluch</b>	0.50	0.80	1.00	28.0	40.0	50.00
<b>Total</b>	<b>1240.00</b>	<b>1045.00</b>	<b>1080.00</b>	<b>63,500</b>	<b>51,500</b>	<b>53,600</b>

Sources: Ministry of Food, Agriculture and Livestock; FAS/Islamabad

### Production Policy

The Government of Pakistan (GOP) is striving to achieve self-sufficiency and sustainability in sugar production by ensuring the availability of inputs and establishing a sugarcane support price which is acceptable to all stakeholders. The sugar industry is looking for value added by-products, as well as reducing costs and promoting cultivation of high sucrose cane.

The Government supports cane production by setting an indicative price, which is announced either before or after planting. The Federal government generally does not procure cane, but authorizes Provincial governments to fix respective cane prices in consultation with representatives of both the sugar industry and farmer organizations. For MY 2009/10 the state Government of the Punjab has enhanced the cane purchase price by 25 percent over the previous year making it Rs.100 per 40 Kg (\$31.25 per MT).

The Ministry of Food, Agriculture and Livestock (MINFAL) is in consultation with the Pakistan Sugar Mills Association (PSMA) in an effort to increase sugarcane productivity and to increase the capacity of sugar mills which are currently operating at 50 percent capacity level. The GOP is also looking to amend the Sugar Factory Control Act of 1950 in order to create a more conducive market environment for stakeholders. A technical committee has been appointed by the GOP to develop a methodology for linking sugarcane prices with sugar recovery rates. This qualitative measure should improve the production dynamics and profitability for both farmers and millers.

**Table 2: Indicative Prices of Sugarcane by Province**

(Rs. per 40 kg)

YEAR	PUNJAB	SINDH	NWFP	BALUCHISTAN
<b>2000-01</b>	35.00	36.00	35.00	36.00
<b>2001-02</b>	42.00	43.00	42.00	43.00
<b>2002-03</b>	40.00	43.00	42.00	43.00
<b>2003-04</b>	40.00	41.00	42.00	43.00
<b>2004-05</b>	40.00	43.00	42.00	43.00
<b>2005-06</b>	45.00	58.00	48.00	-
<b>2006-07</b>	60.00	67.00	48.00	-
<b>2007-08</b>	60.00	67.00	65.00	-
<b>2008-09</b>	80.00	81.00	65.00	-
<b>2009-10</b>	<b>100.00</b>	-	-	-

**SUGAR****Production**

MY 2009/10 refined sugar production is forecast at 3.65 MMT, primarily due to an expected increase in both area and production of sugar cane. As the country's requirement is 4.35 MMT, domestic production will be supplemented through imports. For MY 2008/09, refined sugar production is estimated at 3.542 MMT (raw value); mainly due to decrease in sugar cane area which was down more than 15 percent compared with the previous year.

The Agriculture Ministry and the Pakistan Sugar Mills Association have initiated a sugar crop development project. Punjab and Sindh Provinces have already conducted research in the cultivation of sugar beet and results have been encouraging. Industrial adoption and commercialization of sugar beet, however, requires additional research as well as comprehensive planning on the part of government, industry and the farm community to make cultivation of this potential crop a success. The sugar industry is reluctant to promote sugar beet cultivation as industry maintains it is not technically feasible to properly process sugar beet because if the beets are not processed immediately product to high temperatures at the time of harvest will damage the beets. Beet processing also requires more fuel, making it costlier as compared to cane processing.

**Table 3: Refined Sugar production, Supply and Demand**

Sugar, Centrifugal Pakistan	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		Jan	Annual Data Displayed		Jan
	official	post	Data	official	post	Data	official	Post	Data
Beginning Stocks	1,060	1,060	1,060	1,163	1,163	1,163	1,050	1,113	
Beet Sugar Production	20	20	20	20	20	20	0	20	
Cane Sugar Production	4,143	3,700	4,143	3,542	3,650	3,542	0	3,650	
Total Sugar Production	4,163	3,720	4,163	3,562	3,670	3,562	0	3,670	
Raw Imports	0	0	0	300	0	300	0	200	
Refined Imp.(Raw Val)	110	400	110	400	550	400	0	530	
Total Imports	110	400	110	700	550	700	0	730	
Total Supply	5,333	5,180	5,333	5,425	5,383	5,425	0	5,450	
Raw Exports	0	0	0	0	0	0	0	0	
Refined Exp.(Raw Val)	70	70	70	75	70	75	0	70	
Total Exports	70	70	70	75	70	75	0	70	
Human Dom. Consumption	4,100	4,100	4,100	4,300	4,200	4,300	0	4,350	
Other Disappearance	0	0	0	0	0	0	0	0	
Total Use	4,100	4,100	4,100	4,300	4,270	4,375	0	4,420	
Ending Stocks	1,163	1,010	1,163	1,050	1,113	1,050	1,050	1,030	
Total Distribution	5,333	5,180	5,333	5,425	5,383	5,425	0	5,450	
TS=TD	0	0	0	0	0	0	0	0	
Comments									

## Consumption

MY 2009/10 sugar consumption is forecast at 4.35 MMT. Total per capita refined sugar consumption is estimated at 25 kilograms, based on improved domestic supply and strong demand. Retail sugar prices are expected to continue to hover around Rs. 45 (US\$ 0.56) per kilogram, which is 46 percent above the last year's average prices. Much of the price hike is attributed to currency devaluation followed by a rise in international prices. The stability of retail prices will depend upon timely imports and prevailing prices in the international market.

**Table 4: Monthly Average Retail Prices of Sugar**

YEAR/MONTH	2005	2006	2007	2008	2009
JANUARY	24.35	29.49	31.55	26.06	39.38
FEBRUARY	27.00	35.05	30.83	25.73	42.63
MARCH	26.33	35.61	30.63	25.44	44.79
APRIL	26.27	36.77	30.25	25.18	-
MAY	26.15	36.32	29.85	28.45	-
JUNE	26.46	34.91	28.38	29.75	-
JULY	28.06	35.06	29.20	31.68	-
AUGUST	27.85	34.98	30.17	32.70	-
SEPTEMBER	26.65	33.43	29.85	33.44	-
OCTOBER	26.71	32.87	29.36	37.61	-
NOVEMBER	27.50	33.15	28.75	37.72	-
DECEMBER	28.47	30.86	26.89	35.59	-
<b>AVERAGE</b>	<b>26.82</b> <b>\$0.45</b> USD1=Rs.61	<b>34.08</b> <b>\$0.57</b> USD1=Rs.61	<b>29.64</b> <b>\$0.49</b> USD1=Rs.61	<b>30.80</b> <b>\$0.38</b> USD1=Rs.80	<b>42.27</b> <b>\$0.53</b> USD1=Rs.80

The GOP has recently included sugar in the compulsory list of items to monitor for quality. Previously, quality assurance was the responsibility of the manufacturer. However, samples of sugar produced from various mills were declared unfit for human consumption due to high levels of sulphur dioxide. The Pakistan Standards and Quality Control Authority (PSQCA), a regulatory body, is responsible for ensuring product quality and standards.

## Trade

MY 2009/10 sugar imports are forecast at 730,000 MT, and MY 2008/09 sugar imports estimated at 700,000 MT. The government has traditionally imported sugar through the Trading Corporation of Pakistan (TCP) in an effort to moderate sugar prices. However, in January 2009, the government ended the sale of sugar at subsidized prices to the state-owned Utility Stores Corporations. Consequently an increasing share of Pakistan's sugar imports is expected to be made up of private sector imports, expected to account for 100 percent of sugar imports in MY 2009/10.

Imports of raw sugar are subject to a 25 percent import duty, a 16 percent sales tax, a 10 percent regulatory duty, a 2 percent withholding tax, and a one percent central excise duty (total tax = 54 percent), where as imports of refined sugar may enter duty free (although still subject to a total tax rate of 29 percent). In anticipation of the rationalization of the Pakistan import regime for sugar, the PS&D includes estimates of raw sugar imports at 300,000 tons in MY2008/09 and 200,000 tons in MY 2009/10.

## Stocks

MY 2009/10 stocks are forecast at 1.05 MMT, based on projected supply-demand scenarios and trade expectations.

## ETHANOL

### Production

The Pakistan sugar sector has the capacity to produce over 2.5 million metric tons (MMT) of molasses available for processing into ethanol. To maximize returns, the sugar industry processes molasses to produce anhydrous and hydrous ethanol. Countrywide, nineteen distillery units have an annual ethanol production capacity of over half a million tons. In 2007, Pakistan exported more than 273,000 tons of ethanol (hydrous plus fuel ethanol). Higher production and exports are expected in the ensuing years.

### Export

Ethanol exports have risen steadily over the past five years, as distilleries convert larger volumes of molasses into value added ethanol. To date, there is no direct financial assistance or tax incentive provided by the government for the production or marketing of ethanol or ethanol blended petrol. Nor does the GOP currently support any research and or development projects for ethanol production. Never-the-less, increasing volumes of ethanol will be produced in response to its competitive use in the world markets.

At present, over a 50 percent of locally produced ethanol is exported at an average price of about \$500/MT. Main destinations include: Europe, Far Eastern (Korea, Japan, Taiwan and the Philippines) and Middle East (Dubai and Saudi Arabia).

**Table 5: Year Wise Molasses Production and Ethanol Export:**

Year	Molasses Production (Million Metric Tons)	Ethanol Export (Metric Tons)
2002-2003	2.048	61,710
2003-2004	2.122	99,711
2004-2005	1.497	122,104
2005-2006	1.438	169,233
2006-2007	1.911	273,079
2007-2008*	2.650	315,846

\* projected

## OTHER RELEVANT REPORTS

REPORT #	SUBJECT	DATE SUBMITTED
PK 8016	<a href="#">Sugar Annual 2008</a>	04/15/2008
PK 8032	<a href="#">Sugar Semi Annual 2008</a>	11/08/2008
PK 8033	<a href="#">Bio-Fuels 2008</a>	12/19/2008

To contact FAS/Islamabad, email us at [Agislamabad@usda.gov](mailto:Agislamabad@usda.gov)